



**HARVARD Kennedy School**  
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

API 141  
*Finance*

**SYLLABUS**  
Sep 2, 2014

Akash Deep

**HARVARD Kennedy School**  
**API-141, Fall 2014**  
*Finance*

Faculty Akash Deep  
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Office Hours Monday or Wednesday afternoons (sign-up outside Littauer-213)

Lectures Monday and Wednesday, 11:40 AM to 1:00 PM in Littauer-140  
Review Session Friday, 11:40 AM to 1:00 PM in Starr

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## **COURSE DESCRIPTION**

This introductory (but fast-paced) course provides a general survey of finance and investments. It emphasizes an intuitive, logically rigorous understanding of the theory and practice of financial markets, illustrating the concepts through examples and cases drawn from the public, private, and non-profit sectors. Topics covered include: present value analysis and discounting, diversification, the tradeoff between risk and return, market efficiency, pricing of stocks and bonds, the capital asset pricing model, term structure of interest rates, the principle of arbitrage, pricing of derivative securities (forwards, futures, and options), the use of derivatives for hedging, risk management, and the regulation of financial markets.

## **AUDIENCE**

The course is intended for students who are interested in learning the basic tools and techniques of finance and how they are employed for the valuation of complex securities. While an intuitive appreciation of the principles will be the primary objective, mathematical tools will be employed to illustrate the implementation of these principles to practical cases. Any advanced mathematics that is used will be developed in lectures and review sessions.

## **PREREQUISITE**

It is assumed that students will be familiar with introductory concepts in economics (e.g. API 101) and basic (high school level) mathematics. Students with concerns about their backgrounds are welcome to speak to the instructor. Basic computer spreadsheet skills will be expected, and required to complete some of the assignments.

## REQUIREMENTS

*The course must be taken for credit. No auditors please.*

Attendance: An alert, inquisitive presence in each and every class is mandatory. Attendance in review sessions is strongly advised but not required.

Readings: Students will be expected to have completed the assigned readings *before class* and review them after class. Note that there are required readings for the first day of class.

Assignments: Weekly problem sets will be assigned throughout the course to illustrate and reinforce the concepts presented in class as well as in preparation of the case discussions to follow.

Exam: There will be in-class, closed book and closed notes midterm and final exams. *No make-up exams will be held.*

<u>Grading</u> :	Class Participation	10%
	Written assignments	20%
	Midterm Exam	30%
	Final Exam	40%

## MATERIALS

The textbook for the course, *Essentials of Investments*, 9<sup>th</sup> edition by Zvi Bodie, Alex Kane and Alan Marcus, McGraw-Hill Irwin, 2013 (referred to as “BKM” below). The textbook can be purchased online.

Readings and cases are available online on the course web page accessible through KNet. Non HKS students should request HKS Credentials to log into KNet. Instructions for this can be found at

Regular reading of financial news in publications such as *The Wall Street Journal*, *The Financial Times* or the Business pages of *The New York Times* is strongly recommended.

## OTHER RECOMMENDED (BUT NOT REQUIRED) FINANCE TEXTS

The following are some good introductory finance texts that overlap in parts with the material covered in the recommended text for this class:

*Corporate Finance*, 10<sup>th</sup> edition, Stephen Ross, Jeffrey Jaffe, and Randolph Westerfield, 2012.

*Principles of Corporate Finance*, 11<sup>th</sup> edition, Richard Brealey and Stewart Myers, The McGraw-Hill Companies, 2013.

These are some additional intermediate to advanced texts devoted to asset pricing:

*Modern Portfolio Theory and Investment Analysis*, 8<sup>th</sup> edition, Edwin Elton, Martin Gruber, Stephen Brown and William Goetzmann, John Wiley and Sons, Inc. 2009.

*Investment Science*, 2<sup>nd</sup> edition, David Luenberger, Oxford University Press, Inc. 2013.

*Options, Futures, and Other Derivatives*, 8<sup>th</sup> edition, John C. Hull, Prentice Hall, 2011.

**TOPICS AT A GLANCE**

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<i>No</i>	<i>Date</i> <sup>+</sup>	<i>Topic</i>	<i>Assignment due</i>
1	Sep 5 (F)	Introduction to finance and financial markets	
2	Sep 8	Present value and the opportunity cost of capital	
3	Sep 10	Valuing financial securities: Bonds	
4	Sep 15	Valuing financial securities: Equity	A
5	Sep 17	Diversification, risk, and return measures	
6	Sep 22	Case: <i>The State of South Carolina</i>	B
7	Sep 24	Choosing a portfolio	
8	Sep 29	The Capital Asset Pricing Model	C
9	Oct 1	Efficient markets	
	Oct 3 (F)	Possible Extra class (TBD)	
10	Oct 6	Case: <i>Communications Satellite Corporation</i>	D
11	Oct 8	Arbitrage	
12	Oct 15	<i>Midterm Exam</i>	
13	Oct 20	Risk management	
14	Oct 22	Forward and futures contracts	
15	Oct 27	Case: <i>Dozier Industries</i>	E
16	Oct 29	Options	
17	Nov 3	Case: <i>BASIX</i>	F
18	Nov 5	Pricing of options	
19	Nov 10	Real options	G
20	Nov 12	Guest Speaker: Colin MacNaught, Debt Management, State of MA	
21	Nov 17	Case: <i>Bidding for Antamina</i>	H
22	Nov 19	Case: <i>Federal Deposit Insurance Corporation</i>	
	Nov 24	Case: <i>Subprime Meltdown</i>	
23	Dec 1	Financial institutions and policy	
24	Dec 3	Review	
	Dec 11	Final exam (2 to 5 PM)	

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<sup>+</sup> Friday class sessions will be held from 11:40 AM to 1:00 PM

## **INTRODUCTION TO FINANCE AND FINANCIAL MARKETS**

### Required Readings

#### **Introduction to finance and financial markets**

“The New Capitalism, How Unfettered finance is fast reshaping the global economy”, Martin Wolf, *The Financial Times*, June 19, 2007.

“Introduction: Finance, Stewardship, and Our Goals”, in *Finance and the Good Society*, Robert J. Shiller, Princeton University Press, 2012, 1-15.

Chapters 1 and 2, *Essentials of Investments*, 9th edition, Bodie, Kane & Marcus, 2013.

### Additional Readings

Chapters 3 and 4, *Essentials of Investments*, 9th edition, Bodie, Kane & Marcus, 2013.

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The Corporate Finance Faculty's professional network includes 6,000 members and more than 70 member organisations. Its membership is drawn from major professional services groups, specialist advisory firms, companies, banks, private equity, venture capital, law firms, brokers, consultants, policymakers and academic experts. More than 40% of the faculty's membership is from beyond ICAEW. The faculty is ICAEW's centre of professional excellence in corporate finance. It contributes to policy development and many consultations by international organisations, governments, regulators and other profe